

Company Results

28 October 2016

Gadang Holdings Berhad

BUY

A bumpy start for FY17

Maintained

Share Price	RM3.29
Target Price	RM3.70

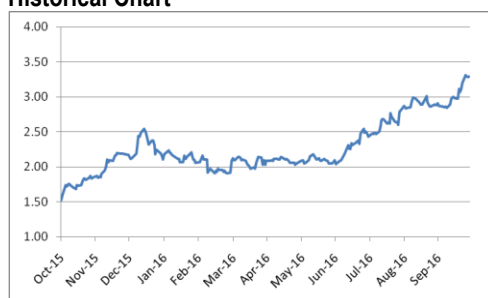
Company Description
Gadang Holdings Bhd, through its subsidiaries, provides earthwork, civil engineering and construction projects. Gadang also develops and invests in properties and manufacture ready-mixed concrete.

Stock Data	
Bursa / Bloomberg code	9261 / GADG MK
Board / Sector	Main / Construction & Materials
Syariah Compliant status	Yes
Issued shares (m)	258.62
Par Value (RM)	1.00
Market cap. (RM'm)	850.87
52-week price Range(RM)	1.66-3.38
Beta (against KLCI)	0.81
3-m Average Daily Volume	2.40m
3-m Average Daily Value^	RM 6.86m

Share Performance			
	1m	3m	12m
Absolute (%)	14.2	14.6	113.6
Relative (%-pts)	14.0	31.8	115.9

Major Shareholders		%
Meloria Sdn Bhd		13.53
Sumber Raswira Sdn Bhd		12.59
Phillip Capital Management Sdn Bhd		3.11
Emplovees Providend Fund		2.87
Kumpulan Wang Persaraan		3.20

Historical Chart



Source: Bloomberg

Research Team

03-87361118, ext. 754

zjlow@jfapex.com.my

Results

- **Gadang recorded top line of RM104.6m and bottom line of RM16.7m for its 1QFY17** in which revenue plunged 58% qoq and 30% yoy whilst net profit sank 45.3% qoq and 20% yoy. The unappealing performance in 1QFY17 was mainly attributed by lower work recognition in construction segment and weary margin in property segment.
- **Within expectations-** 3MFY17 revenue and net profit matched 14% and 21% of our topline and bottom line forecast for FY17 respectively.

Comments

- **Inspid work recognition for Construction segment in 1QFY17** – Construction segment posted RM42.1m revenue and RM8.4m PBT in 1QFY17 with revenue slumped 76.7% qoq and 60.2% yoy. Meanwhile, PBT slid 60.4% qoq given a strong base in 4QFY16. However, PBT inched up marginally by 1.3% yoy in view of higher PBT margin achieved in current quarter. We believe PBT margin of 20%, +8.2 pts qoq and +12.1 pts yoy, are not sustainable and expected to fall in coming quarters along with higher construction work being recognized.
- **Construction works underpinned by RM603.6m outstanding order book and foreseeable strong replenishment** - Construction order book stood at RM603.6m as of 31 August 2016 which will sustain its revenue visibility over 1.3 year or 1.3 times of FY16 revenue. Management has guided that the Group has tendered over RM10b worth of jobs, namely RAPID, KVMRT2, DASH and SUKE. We believe the Group stays high chance to further replenish its order book given its experience in both KVMRT1 and RAPID jobs. Should the Group manage to secure a viaduct package of KVMRT2, its order book will surpass RM1b mark.
- **Property segment bogged down by lower margin** – Property segment recorded RM56.2m revenue and RM13.4m PBT in 1QFY17, decreased 11.3% qoq and 22.7% qoq respectively given a slide in PBT margin of 3.6pts to 23.9%. Notably, property segmental revenue soared 47.2% yoy but PBT dropped 19.2% yoy, mainly due to a higher base in 1QFY16, lifted by JV Capital City project in Johor Bahru, which commands high margin.
- **Property launches mainly focusing on affordable and mid-range products that in line with current market demand.** We learnt that the group is planning to launch new phases of Laman View, Cyberjaya, consisting 469 units of PRIMA apartments with GDV of RM157m and 194 double storey houses with GDV of RM173m, in December 2016. We

believe the favourable product mix of affordable and landed houses will still enjoy resilient demand under current soft market and hence further raising its unbilled sales.

- **Property segment is underpinned by its healthy unbilled sales of RM221m.** As of 31 August 2016, its unbilled sales render revenue visibility over 1.35 times of FY16 property segmental revenue. The group has achieved new sales of RM27.2m in 1QFY17. Looking forward, we are positive that the group is able to sustain its encouraging new sales in view of the favourable product mix offering.
- **Steady earnings from Utility Segment** – Utility segment contributed RM5.6m top line in 1QFY17, improving 13.7% qoq and 10.5% yoy. As such, 1QFY17 PBT of RM1.9m recorded a growth of 38.1% qoq and 74.9% yoy. The improvement in utility segment was attributed to better operating margin. Looking forward, we expect utility segment continues to contribute steady earnings to the group. With the completion of construction for its 9-megawatt mini-hydro power concession PT Ikhwan by mid-2019 and upon full commissioning, the Utility segmental earnings are expected to contribute significantly to the group.
- **The Board has proposed earlier on: a) 1 for 1 share split, b) 1 for 4 of new subdivided shares bonus issue and warrants, and c) ESOS of up to 15% of the issued and paid-up share capital.** The exercise will see outstanding shares to expand from 258.6m to 646.5m with possibility of reaching up to 775.8m shares after taking into account the warrants conversion. Thus, the group's EPS will be diluted by 66.7%. We are positive with the corporate exercise, as it will improve the liquidity of shares trading in the market. Besides, bonus issue normally remains as a positive psychology catalyst in the market.

Earnings Outlook/Revision

- **No change to our earnings forecast for FY17F and FY18F.**

Valuation/Recommendation

- **Maintain BUY on Gadang with a higher target price of RM3.70 (from RM3.40).** We derived our valuation by pegging at PER of 12x FY17F EPS of 31sen. The valuation is in line with its growth potential by bagging more construction works in future. The target PE assigned is at the range of upcycle PE for small-and-mid cap contractors amid current booming infrastructure works.
- We continue to favour the Group for its well-diversified business model as well as its ability to achieve satisfactory growths across all divisions. Looking forward, we are sanguine on Gadang's earnings given the favorable property unbilled sales of RM 221m coupled with its sizeable construction order book of RM606m with high chances of lifting its future order book from prospect projects such as RAPID and KVMRT2.

Quarterly performance

FYE 31MAY	1QFY17 (RMm)	4QFY16 (RMm)	QoQ % chg	1QFY16 (RMm)	YoY % chg
Revenue	104.6	248.9	-58.0%	149.4	-30.0%
Profit before Tax	22.1	37.8	-41.5%	25.9	-14.5%
Net Profit	16.7	30.5	-45.3%	20.9	-20.0%
PBT Margin (%/pts)	21.1	15.2	6.0	17.3	3.8
Net Profit Margin (%/pts)	16.0	12.3	3.7	14.0	2.0
EPS (Sen)	13.2	11.2	17.4%	11.8	11.3%

Source: Company, JF Apex

Quarterly segments performance

FYE 31MAY	1QFY17 (RMm)	4QFY16 (RMm)	QoQ % chg	1QFY16 (RMm)	YoY % chg
Revenue					
Construction	42.1	180.1	-76.6%	105.7	-60.2%
Property	56.2	63.3	-11.3%	38.2	47.2%
Utility	5.6	4.9	13.7%	5.0	10.5%
Plantation	0.7	0.6	18.5%	0.5	62.8%
Profit before tax					
Construction	8.4	21.2	-60.4%	8.3	1.3%
Property	13.4	17.4	-22.7%	16.7	-19.2%
Utility	1.9	1.3	38.1%	1.1	74.9%
Plantation	-0.4	-0.2	NA	-0.4	NA
PBT Margin					
	%	%	Pts chg	%	Pts chg
Construction	20.0	11.8	8.2	7.8	12.1
Property	23.9	27.5	-3.6	43.6	-19.7
Utility	33.6	27.6	5.9	21.2	12.4
Plantation	NA	NA	NA	NA	NA

Source: Company, JF Apex

Financial Summary

FYE 31 May	RM'M 2012	RM'M 2013	RM'M 2014	RM'M 2015	RM'M 2016	RM'M 2017F	RM'M 2018F
Revenue	246.35	356.47	544.96	587.40	676.14	747.31	781.11
Gross Profit	42.60	58.36	90.76	126.25	155.63	160.67	164.03
EBIT	21.38	34.07	65.11	87.33	126.64	112.37	118.70
PBT	17.92	32.47	63.09	84.82	124.08	109.38	115.57
PAT	13.74	20.66	44.39	60.78	94.64	79.85	84.37
EPS (Sen)	0.06	0.09	0.19	0.26	0.37	0.31	0.33
DPS (Sen)	0.02	0.03	0.04	0.05	0.07	0.06	0.06
ROE	5.6%	7.9%	14.9%	15.9%	17.9%	14.5%	13.7%
ROA	3.0%	4.0%	7.6%	7.4%	7.7%	6.3%	6.5%
BV/Share	1.05	1.12	1.27	1.62	2.04	2.13	2.39
Net Gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company, JF Apex

JF APEX SECURITIES BERHAD – CONTACT LIST
JF APEX SECURITIES BHD
Head Office:

6th Floor, Menara Apex
Off Jalan Semenyih
Bukit Mewah
43000 Kajang
Selangor Darul Ehsan
Malaysia

General Line: (603) 8736 1118
Facsimile: (603) 8737 4532

PJ Office:

15th Floor, Menara Choy Fook On
No. 1B, Jalan Yong Shook Lin
46050 Petaling Jaya
Selangor Darul Ehsan
Malaysia

General Line: (603) 7620 1118
Facsimile: (603) 7620 6388

DEALING TEAM
Head Office:

Kong Ming Ming (ext 3237)
Shirley Chang (ext 3211)
Norisam Bojo (ext 3233)
Wong Wing Haur, Alvin (ext 3226)

Institutional Dealing Team:

Lim Teck Seng
Sanusi Bin Mansor (ext 740)
Fathul Rahman Buyong (ext 741)
Ahmad Mansor (ext 744)

PJ Office:

Mervyn Wong (ext 363)
Azfar Bin Abdul Aziz (Ext 822)
Tan Heng Cheong (Ext 111)

RESEARCH TEAM
Head Office:

Lee Chung Cheng (ext 758)
Lee Cherrng Wee (ext 759)
Norsyafina binti Mohamad Zubir (ext 752)
Low Zy Jing(ext 754)
Nazhatul Shaza binti Shukor (ext 755)

JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK
STOCK RECOMMENDATIONS

- BUY** : The stock's total returns* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

JF APEX SECURITIES BERHAD – DISCLAIMER

Disclaimer: The report is for internal and private circulation only and shall not be reproduced either in part or otherwise without the prior written consent of JF Apex Securities Berhad. The opinions and information contained herein are based on available data believed to be reliable. It is not to be construed as an offer, invitation or solicitation to buy or sell the securities covered by this report.

Opinions, estimates and projections in this report constitute the current judgment of the author. They do not necessarily reflect the opinion of JF Apex Securities Berhad and are subject to change without notice. JF Apex Securities Berhad has no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

JF Apex Securities Berhad does not warrant the accuracy of anything stated herein in any manner whatsoever and no reliance upon such statement by anyone shall give rise to any claim whatsoever against JF Apex Securities Berhad. JF Apex Securities Berhad may from time to time have an interest in the company mentioned by this report. This report may not be reproduced, copied or circulated without the prior written approval of JF Apex Securities Berhad.

Published & Printed By:
JF Apex Securities Berhad (47680-X)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)